Abner Herrman & Brock
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# "Unchartered Waters"

Over the past almost two years, the global pandemic has changed our lives. From the way we work, to the way we interact with each other, COVID-19 has altered many of our day-to-day behaviors. The pandemic also created an economic crisis that pushed governments and central banks to respond in new and creative ways. As a new variant has emerged, investors are now analyzing the actions that have been taken to carry the global economy through the pandemic to discern the impact on the global economy going forward.

Both domestically and globally, governments, through both monetary and fiscal policy, have taken unprecedented steps to support economic activity. In the US, the Federal Reserve stepped in with $2.3 trillion in lending to support households, small businesses, and the financial markets. The accommodative monetary policy and the fiscal stimulus of both the $1.2 trillion Infrastructure Investment and Jobs Act, and the proposed $1.75 trillion, Build Back Better plan represent dramatic and unprecedented change in the amount of government spending in such a short time frame. As a result, we must reconsider the ability of historically predictive economic metrics to be predictive today, given these demonstrative changes in the economic landscape. Furthermore, investors are rethinking the relationship that company stock valuations have to those economic variables such as inflation and interest rates. Are the relationships the same, or are there differences in these correlations because of new factors such as technological innovation, and the unique monetary and fiscal policies of recent years? The global pandemic has also constrained supply chains and instigated labor shortages, which make the historically correlated relationships even more questionable. In the best case scenario, there is uncertainty as to the most relevant economic statistics to base an accurate forecast for the future rate of economic and corporate earnings growth. In the worst case, there is a lack of reliability of forecasted projections because of the unusual machinations that have occurred throughout the economy as a result of the pandemic. In either case, AHB has proactively taken steps to invest client assets with a focus on risk-adjusted returns.

On the equity side, AHB balances the portfolio between value and growth stocks. This allows portfolios to benefit from attractive end markets while protecting clients from excessive volatility in the more growth oriented, higher price/earnings ratio stocks that may be negatively impacted by a more extended period of inflation. During the year, the portfolio made new investments in the Information Technology, Communication Services, Energy and Financial Services sectors.

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In times of uncertainty, there is often a flight to quality where investors will rebalance toward companies that are the largest and often market leaders in their industry. Companies with exceptional management, strong balance sheets and significant market share are critical variables in the AHB investment process. This balanced and high quality focused approach to portfolio construction provides clients with the optimal conditions for reasonable risk adjusted returns during this period of transition from a low interest rate, low inflation environment to one in which both metrics are trending higher.

On the fixed income side, we have also taken significant steps to help insulate client portfolios from an uncertain economic and inflationary outlook. AHB's approach in fixed income portfolios includes investing in only investment grade bonds and in municipal bond accounts, A- rated or better. As is the case with companies invested on the equity side of client portfolios, our emphasis on quality fixed income investments is even more pertinent with the economic outlook so uncertain. Client portfolios are positioned with an intermediate duration (around 4-5 years average maturity) while evenly laddering portfolios by maturity year. An actively laddered approach provides client portfolios with continuous maturities that will potentially optimize reinvestment at the higher available interest rates. This strategy of investing in highly rated, individual securities as opposed to bond mutual funds also benefits our client portfolios because we are able to take advantage of increasing rates as bonds mature whereas bond mutual funds or fixed income index funds do not have maturity dates and are unable to provide.

While we are optimistic about the outlook for GDP growth and corporate profitability, we are also experiencing unchartered waters. Our goal is to achieve reasonable risk adjusted returns for client portfolios with an equal priority to protect clients' hard-earned capital. We have taken significant steps towards achieving both of these objectives, which we think will serve client portfolios well as we look ahead to the coming year.

We wish you and your family a Happy and Healthy New Year,

-AHB Investment Team